

February 21, 2023

Sonata Finance Private Limited: Rating placed on Rating Watch with Positive Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	500.00	500.00	[ICRA]BBB placed on rating Watch with Positive Implications
Non-convertible debentures	40.00	40.00	[ICRA]BBB placed on rating Watch with Positive Implications
Non-convertible debentures	103.00	-	[ICRA]BBB placed on rating Watch with Positive Implications and withdrawn
Total	643.00	540.00	

*Instrument details are provided in Annexure I

Rationale

On February 10, 2023, Sonata Finance Private Limited (SFPL) announced that it has entered into share purchase agreements with Kotak Mahindra Bank Limited {rated [ICRA]AAA (Stable)} and the existing shareholders of the company, whereby the bank will acquire 2,64,53,256 equity shares of the company (face value of Rs. 10 each fully paid up) for a total consideration of approximately Rs. 537 crore, constituting 100% of SFPL's issued and paid-up capital. The transaction is subject to requisite approvals, including that of the Reserve Bank of India.

Following the announcement, ICRA has placed the rating on Watch with Positive Implications. The rating watch factors in the expected implication of the change in the shareholding with the company becoming a wholly owned subsidiary of the bank. ICRA expects this to improve SFPL's financial flexibility and fund-raising ability. The resolution of the rating watch would depend on more clarity on this transaction and its timelines.

ICRA has also withdrawn the rating outstanding on the Rs. 103-crore non-convertible debentures of the company as the instruments have matured/been redeemed and there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities, and key financial indicators: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies ICRA Policy on Withdrawal of Credit Rating
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Sonata Finance Private Limited (SFPL) is a non-banking financial company – microfinance institution (NBFC-MFI) registered with the Reserve Bank of India (RBI). It was incorporated in 1995 and its microfinance operations commenced in 2006. SFPL's registered office is in Lucknow. It offers credit to economically-backward women engaged in income-generating activities like processing and manufacturing activities, service activities and animal husbandry. While the company offers a gamut of loans

including loans for home improvement, utility, sanitation, etc, its focus product is the income-generating group loan (IGL) using the joint liability group lending (JLG) model.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)						Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2023 (Rs. crore)	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Feb 21, 2023	Oct 27, 2022	May 06, 2022		Mar 25, 2021	Aug 31, 2020	
1	Long-term bank facilities	Long term	500.00	481.23	[ICRA]BBB %	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-convertible debentures	Long term	40.00	20.00	[ICRA]BBB %	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-convertible debentures	Long term	103.00	-	[ICRA]BBB %; withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Non-convertible debentures	Long term	-	-	-	-	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
5	Subordinated debt	Long term	-	-	-	-	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

% - Rating on Watch with Positive Implications; Source: Company

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term bank facilities	Simple
Non-convertible debentures	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE509M07170	Non-convertible debentures	December 7, 2018	14.20%	March 31, 2023	20.00	[ICRA]BBB Rating Watch with Positive Implications
INE509M07204	Non-convertible debentures	July 31, 2017	12.53%	July 31, 2022	78.00	[ICRA]BBB Rating Watch with Positive Implications; withdrawn
INE509M07238	Non-convertible debentures	April 6, 2015	14.65%	June 30, 2022	15.00	[ICRA]BBB Rating Watch with Positive Implications; withdrawn
INE509M07220	Non-convertible debentures	November 19, 2020	10.75%	May 19, 2022	10.00	[ICRA]BBB Rating Watch with Positive Implications; withdrawn
NA	Non-convertible debentures – Yet to be issued	NA	NA	NA	20.00	[ICRA]BBB Rating Watch with Positive Implications
NA	Long-term bank facilities	September 28, 2016 to December 31, 2019	10.60% - 13.50%	March 25, 2023 to March 31, 2025	500.00	[ICRA]BBB Rating Watch with Positive Implications

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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